

## Message Text

CONFIDENTIAL

PAGE 01 BELGRA 03799 01 OF 03 230729Z

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ACTION SP-02

INFO OCT-01 EUR-12 ISO-00 CIAE-00 INR-07 NSAE-00 EB-07

COME-00 TRSE-00 OMB-01 AGR-05 IO-10 FRB-03 AID-05

FEA-01 EA-06 INT-05 STR-04 CIEP-01 CEA-01 /071 W

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FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC 3581

C O N F I D E N T I A L SECTION 1 OF 3 BELGRADE 3799

E.O. 11652: GDS

TAGS: PFOR EGEN YO

SUBJECT: THE CHALLENGE OF THE DEVELOPING COUNTRIES

REF: DEPT A-3627

1. SUMMARY: THE EMBASSY APPRECIATES THE OPPORTUNITY TO REVIEW AND COMMENT ON THE S/P STUDY, AND RECOMMENDS THAT US POLICY FORMULATION CONTINUE TO EMPHASIZE THE OPTION TWO (HEDGEHOG) ROUTE, WHILE DRAWING SELECTIVELY FROM OPTION THREE AND FOUR. OUR OVERALL POSITION IS QUITE CLOSE TO THE COMBINATION OF STRATEGIES OUTLINED IN THE FOOTNOTE TO PAGE 101 OF THE STUDY IN THAT WE STRESS:

(A) INCREASED DOMESTIC RESOURCE SELF-RELIANCE, AND IMMEDIATE EFFORTS TO STRENGTHEN BILATERAL RELATIONS WITH THE RESOURCE-SUFFICIENT COUNTRIES (CANADA, AUSTRALIA, SOUTH AFRICA, SOVIET UNION) AS WELL AS OUR EUROPEAN AND JAPANESE ALLIES.

(B) ADOPTION OF "MOYNIHANESQUE" POSTURE IN INTERNATIONAL FORUMS, AT THE SAME TIME WORKING ON WAYS TO DEVELOP MULTI-LATERAL INSTITUTIONS INTO VEHICLES FOR GLOBALIZING THE APPROACH TO RESOURCE DEVELOPMENT AND (PARTICULARLY) FOOD ASSISTANCE PROGRAMS.

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PAGE 02 BELGRA 03799 01 OF 03 230729Z

(C) ASSUMPTION OF A REDUCED OFFICIAL BILATERAL ECONOMIC

POSTURE IN LDCS, AND OF THE MAXIMUM DEGREE OF "HANDS-OFF" POLICY TOWARD MULTILATERAL CORPORATIONS OPERATING IN LDCS.

(D) AN INCREASED WILLINGNESS TO ACCOMMODATE BILATERALLY TO INDIVIDUAL LDCS (BUT NEVER IN A "BLOC" CONTEXT) THAT HAVE REAL AND GROWING ECONOMIC STRENGTH; INCLUDING EFFORTS TO FIND FORMULAS FOR PERMITTING THEM GREATER ROLES AND RESPONSIBILITIES IN INTERNATIONAL INSTITUTIONS.

MORE SPECIFIC SUGGESTIONS ON KEY ELEMENTS OF THE ELABORATION OF US POLICY ARE CONTAINED IN LATER PARAGRAPHS. END SUMMARY.

2. BUT AT THE OUTSET, THE EMBASSY BELIEVES THAT ANALYSIS OF THE FORMULATION OF THE US POLICY RESPONSE WOULD BE SHARPENED BY ADDITIONAL ATTENTION TO THE IMPORTANT QUESTION: WHAT REAL LEVERAGE DO THE LDCS HAVE TO BACK UP THEIR DEMANDS? EMBASSY FEELS THAT THE ANSWERS TO THIS QUESTION FORM THE ESSENTIAL POINT OF DEPARTURE FOR US POLICY, AND HENCE DESERVE SPECIAL COMMENT.

3. THE LEVERAGE FACTOR: APART FROM EVENTS OF THE PAST TWO YEARS IN ENERGY AND THE ROLE OF OPEC (THE EMBASSY AGREES THAT "OIL IS THE EXCEPTION"), THE LDCS DO NOT SEEM TO HAVE SUFFICIENT RAW MATERIALS COMMODITY LEVERAGE TO SERIOUSLY IMPACT ON THE US. RATHER, AS A NUMBER OF STUDIES SHOW, OVERWHELMING RAW MATERIALS STRENGTH IS IN THE HANDS OF THE DEVELOPED COUNTRIES. LDC PRODUCERS CAN INJECT SOME TEMPORARY COMMERCIAL AND ECONOMIC DISRUPTION INTO THE INTERNATIONAL SYSTEM. BUT AN ORGANIZED, HIGHLY CONCERTED AND SUSTAINED DISRUPTION OF SUPPLY IS BOTH HIGHLY UNLIKELY AND, OVER A REASONABLE LENGTH OF TIME, NOT A CAUSE FOR US CONCERN.

4. THE LDCS DO HAVE A DEGREE OF "DERIVED LEVERAGE" OVER THE US BECAUSE OF THEIR GREATER RELATIVE RESOURCE STRENGTH VIS-A-VIS WESTERN EUROPE AND JAPAN. ANY REALISTIC US POLICY MUST TAKE ACCOUNT OF THE EXTENT TO WHICH OUR CLOSEST ALLIES ARE, OR PERCEIVE THEMSELVES TO BE, VULNERABLE TO LDC PRESSURE AND THE US MUST BE PREPARED TO BEAR THE BRUNT OF LDC CRITICISM AND DEMANDS THAT EUROPE AND JAPAN WILL UNDERSTANDABLY SEEK TO DEFLECT ONTO US. AT THE SAME TIME, HOWEVER, LDC PRESSURE ON

CONFIDENTIAL

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PAGE 03 BELGRA 03799 01 OF 03 230729Z

THE RELATIVELY MORE RESOURCE-DEFICIENT OECD NATIONS MAY BE AN ADDED STIMULUS TO DEVELOP INTRA-OECD POLICIES OF RAW MATERIAL COOPERATION AND COORDINATION -- ESPECIALLY IN KEY STRATEGIC COMMODITIES. OVER TIME, THIS COULD LESSEN THE IMPACT OF LDC "DERIVED LEVERAGE."

5. ARGUMENTS THAT THE LDCS HAVE LEVERAGE BY MEANS OF THEIR COLLECTIVE ABILITY TO BLOCK REFORM PROPOSALS IN MULTILATERAL

FORUMS ARE NOT CONVINCING. FOR THE MOST PART THE US IS DEFENDING THE EXISTING STRUCTURE AND LDC OPPOSITION TO REFORMS COULD ONLY BE AGAINST PROPOSALS THAT ACCOMMODATE TO LDC DEMANDS, BUT THAT THE LDCS DO NOT FEEL GO FAR ENOUGH TO MEET THEIR DEMANDS. IMPERFECT AS IT MAY BE, THE STATUS QUO IN THE INTERNATIONAL SYSTEM KEEPS LEVERAGE IN THE POSSESSION OF THE DEVELOPED.

6. SIMILARLY, ARGUMENTS THAT LDCS HAVE LEVERAGE IN MOVES TO TAKE GREATER OR COMPLETE CONTROL OF THEIR RESOURCES FROM THE MULTINATIONAL CORPORATIONS APPEAR ILLLOGICAL. RATHER THAN BEING "HOSTAGE" TO THE LDCS, THE MULTINATIONAL FIRMS (OR TRANSNATIONAL BUT PREDOMINANTLY US-BASED CORPORATIONS) CAN IN MOST CASES SHIFT THEIR INVESTMENT EFFORTS EITHER TO THE US OR TO RELATIVELY SAFER, MORE SECURE, AREAS OF RESOURCE SUPPLY -- "THE RESOURCE SELF-SUFFICIENT" INCLUDING CANADA, AUSTRALIA, NEW ZEALAND, SOUTH AFRICA (PERHAPS EVEN THE SOVIET UNION). IN FACT, WE UNDERSTAND THAT SUCH TRENDS ARE ALREADY UNDERWAY WITHIN THE RESOURCE INDUSTRY.

CONFIDENTIAL

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PAGE 01 BELGRA 03799 02 OF 03 230742Z

11  
ACTION SP-02

INFO OCT-01 EUR-12 ISO-00 CIAE-00 INR-07 NSAE-00 EB-07

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FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC 3582

C O N F I D E N T I A L SECTION 2 OF 3 BELGRADE 3799

7. IN THIS REGARD, THE EMBASSY RECOMMENDS THAT MUCH GREATER EMPHASIS AND ATTENTION BE GIVEN TO ANALYZING TRENDS IN THE RESOURCE SELF-SUFFICIENT THAT MAY BE INIMICAL TO US INTERESTS, AND DEVELOPING POLICIES TO COUNTERACT THEM. STRENGTHENING OUR BILATERAL TIES WITH THESE COUNTRIES SHOULD BE A PRIORITY AIM, AND IMMEDIATE EFFORTS SHOULD BE MADE TO ANALYZE THIS AREA AND IDENTIFY AREAS WHERE THE US IS, OR IS BECOMING, MORE VULNERABLE (E.G., CANADIAN LEGISLATION TO SCREEN US DIRECT

INVESTMENT, AUSTRALIAN AND CANADIAN FEDERAL AND STATE/PROVINCIAL RESOURCE TAXATION MEASURES). IT IS INDEED IRONIC THAT THE MORE THE ISSUES PRESENTED IN THE S/P STUDY ARE CONSIDERED, THE MORE COMPELLING THE CONCLUSION THAT A MAJOR US POLICY INITIATIVE IS NEEDED DIRECTED TOWARD OUR POLITICAL AND ECONOMIC RELATIONS WITH CANADA, AUSTRALIA, SOUTH AFRICA -- EVEN THE SOVIET UNION AS AN ADDED UNDERPINNING OF DETENTE. IN FACT IT MAY BE MORE ON THE MARK TO SAY THE POLICY PROBLEMS ARE MORE URGENT FOR THE US VIS-A-VIS THESE COUNTRIES THAN VIS-A-VIS THE LDCS.

8. ANOTHER ISSUE CLOSELY RELATED TO THE BASIC QUESTION OF LEVERAGE IS THAT OF THE IMPACT OF CAPITAL, TECHNOLOGY AND MANAGEMENT ON THE GLOBAL BALANCE OF RESOURCES. HOW, FOR INSTANCE, WILL THE APPLICATION OF ADVANCED TECHNOLOGY AND SUFFICIENT CAPITAL (PERHAPS ALREADY THE "SCARCEST" RESOURCE) CHANGE THE RELATIVE LEVERAGE AMONG COUNTRIES? THE EMBASSY RECOMMENDS AN IMMEDIATE ANALYSIS OF MAJOR TECHNOLOGICAL AND CAPITAL INVESTMENT TRENDS IN INTERNATIONAL AND DOMESTIC RAW MATERIAL AND FOOD COMMODITY

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BELGRA 03799 02 OF 03 230742Z

INDUSTRIES; AND THE LIKELY IMPACT OF THESE TRENDS ON RESOURCE SUPPLY/DEMAND. FOR INSTANCE, IT IS PROBABLY TO OUR ADVANTAGE THAT MNCS ARE INCREASINGLY INHIBITED FROM INVESTING IN LDCS, SINCE A SUBSTANTIAL PORTION OF THIS CAPITAL WILL HENCE BE PUT TO WORK IN THE US. WE SHOULD KNOW WHAT THE FACTS HERE ARE.

9. POLICY RECOMMENDATIONS: THE UNDERLYING PREMISE OF US POLICY SHOULD BE THAT WE ARE WILLING TO IMPROVE THE INTER-NATIONAL ECONOMIC SYSTEM IN WAYS THAT WILL INCREASE ECONOMIC GROWTH FOR ALL NATIONS. WE MUST FORCIBLY REJECT THE CONCEPT OF RE-DISTRIBUTION OF WEALTH AS BEING THE FIRST STEP ON A COURSE THAT WILL ONLY END WITH A LEVELLED AND STAGNATING INTERNATIONAL SYSTEM. (AND OF COURSE IT WILL NOT BE POSSIBLE TO GENERATE DOMESTIC POLITICAL SUPPORT FOR THIS APPROACH ANYWAY.) THE IDEOLOGICAL UNDERPINNING OF OUR POSITION SHOULD BE THAT THOSE NATIONS, LDCS AS WELL AS INDUSTRIALIZED, WHO HAVE FOLLOWED MARKET-ORIENTED ECONOMIC COURSES HAVE BEEN THE ONES THAT HAVE "DONE BETTER." WHILE WE CAN ACCEPT POLICIES AIMED AT ASSISTING NATIONS EARN THEIR WAY, WE CANNOT ACCEPT ANY OBLIGATIONS TO BRING ALL NATIONS TO PARITY IRRESPECTIVE OF THEIR ECONOMIC AND POLITICAL SYSTEMS OR ACTIONS.

10. THUS, US BILATERAL POLICY SHOULD ACCOMMODATE ONLY TO REAL ECONOMIC POWER. THE US SHOULD SCRUPULOUSLY AVOID OVERT, PUBLIC (ESPECIALLY RHETORICAL) ATTEMPTS TO "SPLIT" THE NON-ALIGNED. THIS KIND OF POLICY WILL ONLY BE COUNTERPRODUCTIVE AND FORCE THE NON-ALIGNED INTO TIGHTER "BLOC" COHESION. AND IN NO INSTANCE SHOULD WE DEAL WITH "BLOCS" THAT ARE FOUNDED ON ANYTHING OTHER THAN REAL ECONOMIC POWER. RATHER, THE US SHOULD ACCOMPLISH THE END

OF "SPLITTING" THE NON-ALIGNED BY DEALING ON A BILATERAL BASIS WITH THOSE LDCS WHO HAVE BEEN, OR HAVE GREATEST POTENTIAL FOR BEING, BROUGHT INTO THE INTERNATIONAL MARKET ECONOMY AND HAVE A VESTED INTEREST IN ITS PRESERVATION. (WE TAKE EXCEPTION TO SELECTION OF INDIA AND PAKISTAN AS "MIDDLE POWERS" IN THIS CATEGORY). TO ACCOMPLISH THESE ENDS, US POLICY SHOULD AIM TO:

(A) WORK HARDER AT DEFINING NEW AND SOUND BILATERAL TIES WITH THOSE INDUSTRIALIZED PARTNERS THAT HAVE RESOURCE STRENGTH BUT ARE BECOMING MORE DIFFICULT TO DEAL WITH (PARTICULARLY CANADA AND AUSTRALIA) AS WELL AS THOSE WITH WHICH BILATERAL  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BELGRA 03799 02 OF 03 230742Z

RELATIONS ARE COMPLICATED BY ADDED ISSUES OF IDEOLOGY AND DOMESTIC POLITICAL CONCERNs (CHIEFLY THE SOVIET UNION AND SOUTH AFRICA).

(B) MOVE TOWARD BETTER BILATERAL TIES WITH THE LDC "ARRIVISTI" AND THE SO-CALLED "EXPORT-PLATFORM" COUNTRIES AND HELP BRING THEM MORE INTO THE DEVELOPED WORLD ECONOMY AS QUICKLY AS POSSIBLE.

11. IN MULTILATERAL INSTITUTIONS, THE US SHOULD TAKE A MOYNIHANESQUE POSTURE OF "OPPOSITION" AND MOVE TO ACCEPT AND SUPPORT A LARGER ROLE FOR THOSE COUNTRIES WHO HAVE THE GREATEST RELATIVE ECONOMIC STRENGTH AND WHO ARE WILLING (E.G., THROUGH GREATER FINANCIAL CONTRIBUTIONS) TO ASSUME RESPONSIBLE ROLES IN THESE INSTITUTIONS. THIS STANCE MAY IN THE SHORT RUN GENERATE HEAT, AND THE US SHOULD BE PREPARED TO TAKE IT. (WE SURELY WILL IN ANY CASE, NO MATTER HOW ACCOMMODATING OUR POLICIES, SO WE ARE AT NO LOSS BY ACCEPTING THIS PRESSURE. AND BY ACCEPTING THE ROLE OF "HEAVY" WE WILL BE ABLE TO REDUCE SOMEWHAT THE FACTOR DISCUSSED EARLIER OF "DERIVED" LEVERAGE THE LDCS HAVE VIS-A-VIS WESTERN EUROPE AND JAPAN.)

12. THE NECESSARY CONSEQUENCES OF TAKING THIS APPROACH IN MULTILATERAL INSTITUTIONS WILL BE FOR THE US TO ADOPT A FIRM, OFTEN OUTRIGHT NEGATIVE STANCE TO:

(A) RESIST EFFORTS TO EXPAND THE SYSTEM OF "ONE COUNTRY, ONE VOTE"

(B) BE WILLING TO CAST VETOES AND/OR VOTE "NO" ON KEY QUESTIONS IN ALL FORUMS WHERE THIS OPTION IS AVAILABLE (E.G., VOTE FOR NO TREATY IN LAW OF THE SEA CONFERENCE IF OUR INTERESTS ARE NOT RESPECTED).

CONFIDENTIAL

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PAGE 01 BELGRA 03799 03 OF 03 230751Z

11

ACTION SP-02

INFO OCT-01 EUR-12 ISO-00 CIAE-00 INR-07 NSAE-00 EB-07

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 3583

CONFIDENTIAL SECTION 3 OF 3 BELGRADE 3799

13. US POLICY SHOULD AT THE SAME TIME BE DIRECTED TOWARD "GLOBALIZING" THOSE ISSUES THAT IN ANY EVENT CANNOT BE SOLVED IN THE CONTEXT OF BILATERAL RELATIONS -- MOST IMPORTANTLY THE ISSUE OF FOOD AND MASS HUNGER. SPECIFICALLY, THE US SHOULD CONTINUE TO SUPPORT THE WORLD FOOD PROGRAM AND PRESS FOR ITS EARLY IMPLEMENTATION IF A SOUND MANAGEMENT STRUCTURE IS PUT IN PLACE. IN DOING SO, WE SHOULD STICK TO THE POSITION THAT THE US ROLE IS ONLY ONE PART OF A GLOBALLY CONCERTED APPROACH TO A WORLDWIDE PROBLEM THAT HAS EXISTED FOR CENTURIES IN THE STRUCTURE OF INTERNATIONAL ECONOMY. WHILE THE US, AS THE WORLD'S STRONGEST FOODSTUFF COMMODITY POWER CAN PLAY A LEADING ROLE, THE PROBLEM IS FAR BEYOND THE CAPACITY OF EVEN THE US TO SOLVE. ADDITIONALLY, IN MULTILATERAL FORUMS THE US SHOULD:

(A) GIVE GREATER SUPPORT TO THE MULTINATIONAL FINANCIAL INSTITUTIONS AS CHANNELS OF DEVELOPMENT ASSISTANCE (FOR THE FOURTH WORLD ESPECIALLY) IF INCREASED CONTRIBUTIONS ARE FORTH-COMING FROM OTHER COUNTRIES ABLE TO MAKE THEM, ESPECIALLY THE OIL PRODUCERS

(B) CONSIDER PROPOSALS SUCH AS THOSE BEING INVESTIGATED BY UNDERSECRETARY ROBINSON FOR USING THE MULTILATERALS (PARTICULARLY THE WORLD BANK GROUP OR A WHOLLY NEW INSTITUTION) AS VEHICLES FOR NEW RAW-MATERIALS PRICE/REVENUE STABILIZATION FUNDS, IF THEY ARE FORMULATED IN A WAY NOT TO INTERFERE WITH THE INTEGRITY OF A REFORMED MONETARY SYSTEM.

CONFIDENTIAL

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PAGE 02 BELGRA 03799 03 OF 03 230751Z

14. AS FOR SPECIFIC ECONOMIC, COMMERCIAL AND INVESTMENT QUESTIONS, WE SHOULD:

(1) REJECT INDEXATION PROPOSALS AND GO VERY SLOWLY ON THE MATTER OF INDIVIDUAL COMMODITY AGREEMENTS; FOCUSING INSTEAD ON POLICIES (BOTH DOMESTIC AND INTERNATIONAL) TO INCREASE ACCESS TO SUPPLY AND FACILITATE SUBSTITUTION.

(2) DRAW UPON OUR ANALYSES AND STUDIES COMPLETED RECENTLY TO DETERMINE WHETHER DOMESTIC STOCKPILES OF CERTAIN CRITICAL RAW MATERIALS SHOULD BE CREATED OR BUILT UP AGAIN.

(3) CALL FOR FURTHER STUDY AND ANALYSIS ON A COMMODITY-BY-COMMODITY BASIS OF ALTERNATE FORMS OF DOMESTIC AS WELL AS INTERNATIONAL REVENUE/PRICE STABILIZATION MEASURES, BUT MAKE NO COMMITMENTS TO ENTER INTO THEM UNTIL SUCH ANALYSIS IS THOROUGHLY VETTED WITHIN GOVERNMENT AND PUBLICLY.

15. IN RESPECT TO THE OPERATION OF MULTILATERAL CORPORATIONS, THE US SHOULD REJECT PROPOSALS FOR IMPOSING DOMESTIC US AND/OR INTERNATIONAL CONTROLS ON THEIR INVESTMENT AND OPERATING DECISIONS. THIS RESPONSIBILITY BELONGS TO EACH HOST COUNTRY INDIVIDUALLY AS SOVEREIGN IN MATTERS OF ITS OWN RESOURCES. US POLICY SHOULD LET THE NATURAL FORCES OF MNC STRATEGIC INVESTMENT AND OPERATING DECISIONS TAKE THEIR COURSE AND GIVErecognition TO MANAGEMENT SENSITIVITY TO GUIDE CORPORATE POLICIES WITH RESPECT TO LDC HOST COUNTRY MOODS AND POLICIES. AND, AS INDICATED PREVIOUSLY, IF LDC POLICIES SUCCEED IN DRIVING OUT OR KEEPING OUT US CAPITAL, INSOFAR AS IT IS INSTEAD INVESTED IN THE US THIS MAY BE A BLESSING IN DISGUISE.

16. SUMMING UP, THE EMBASSY BELIEVES THAT THE PRESENT MOOD OF CONFRONTATION BETWEEN DEVELOPED AND DEVELOPING COUNTRIES WILL INEVITABLY ACCENTUATE ILL-FEELINGS AND CONSEQUENT NEGATIVE ASPECTS OF POLICY OPTIONS. BUT THE US SHOULD BE PREPARED TO VIEW THIS ERA IN PERSPECTIVE. WHILE WE SHOULD BE FIRM IN OUR RESPONSE TO THE PRESENT CHALLENGE OF LDCS, BOTH IN PUBLIC AND IN PRIVATE, US POLICY SHOULD CONTINUE TO REITERATE OUR FUNDAMENTAL DESIRE TO FIND THE MECHANISMS THAT WILL PROVIDE LDCS WITH OPPORTUNITIES TO EARN THEIR WAY TO A LARGER SHARE OF CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BELGRA 03799 03 OF 03 230751Z

THE ECONOMIC WEALTH THAT AN EXPANDING GLOBAL ECONOMY WILL CREATE. US POLICY, THEREFORE, SHOULD STRESS OUR WILLINGNESS TO BE PATIENT AND PERSISTENT IN THE SEARCH FOR SOLUTIONS TO THOSE ISSUES OF RESOURCES AND ECONOMIC DEVELOPMENT MUTUALLY ACCEPTABLE AND IN THE LONG TERM INTERESTS OF BOTH DEVELOPED AND DEVELOPING ALIKE. BUT UNDER NO CIRCUMSTANCES SHOULD WE

PERMIT OURSELVES TO SLIDE TOWARD EMPTY-SHELL GESTURES OF ACCOMMODATION. NEITHER THE US, NOR THE INTERNATIONAL ECONOMY, CAN AFFORD A SLOW DRIFT INTO ACCEPTANCE OF THE ANALOGY OF DOMESTIC RESOURCE TRANSFERS PROJECTED INTO SCHEMES FOR GLOBAL REDISTRIBUTION OF RESOURCES. IT IS BETTER TO SAY "NO", OR NOTHING AT ALL, RATHER THAN PROMISE WHAT WE DO NOT MEAN TO DELIVER -- OR MORE IMPORTANTLY CANNOT DELIVER.

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LESS DEVELOPED COUNTRIES, ECONOMIC DEVELOPMENT, FOREIGN POLICY POSITION  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 JUL 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BELGRA03799  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750253-1182  
**From:** BELGRADE  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1975/newtext/t19750727/aaaaaxyc.tel  
**Line Count:** 393  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SP  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 8  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 STATE A-3627  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 02 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <02 JUL 2003 by CunninFX>; APPROVED <12 NOV 2003 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** THE CHALLENGE OF THE DEVELOPING COUNTRIES  
**TAGS:** PFOR, EGEN, YO  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006